

Pragati

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Review

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Ideas for India's future

**NANDAN NILEKANI ON THE NATIONAL AGENDA
THE VERDICT IN JAMMU & KASHMIR
GEOLOGY AND AGRARIAN DISTRESS
WHEN KEYNES IS INVOKED
ON CANTEENS AND TEXTBOOKS**

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COUNTER-TERRORISM

Politicise terror*Electoral politics is the best way to punish bad policies*

ROHIT PRADHAN

"TERROR SHOULD not be politicised", argue ebullient television anchors and outraged op-ed columnists. Some go on to claim that the Bharatiya Janata Party's defeat in the recent Delhi and Rajasthan state elections is an express rejection by voters of the "politics of terror." That is, the voters demand a bipartisan approach towards terror and would punish parties which attempt to take advantage of terror attacks for electoral gains.

An attack like the one on Mumbai on November 26th, 2008 is indeed an attack on India—"an attack on our ambitions" as the prime minister, Dr Manmohan Singh, himself put it. It is a given, therefore, that political parties and civil society must unite in their condemnation of such dastardly attacks and back the government in its attempts to tackle future threats. As Ajit Kumar Doval has argued in last month's issue of *Pragati*, in an era of coalition politics and divided polity, a

bipartisan approach facilitates framing of a national anti-terror policy.

Nevertheless, to argue that the issue of terrorism can be de-linked from politics presupposes that the United Progressive Alliance (UPA) government's attitude towards terror was not framed by politics. Yet, in one of the few decisive actions the UPA government took, it abrogated the Prevention of Terrorist Act (POTA) enacted by its predecessor. For the last four years, despite multiple terrorist outrages, its ministers have dismissed the need for POTA and ridiculed those demanding a special anti-terror law, repeatedly arguing that existing laws were sufficient to tackle terrorists. So when it conceded the need for special laws after the Mumbai attack, should it not be asked: What changed? POTA of course could not have prevented Mumbai attacks—no law can—the issue is merely symptomatic of the government's lackadaisic

sical attitude towards terror. Therefore, while a bipartisan approach is welcome, it cannot serve as a veneer to ward off accountability. It is the right and the duty of the opposition—in fact, every citizen, to demand that the government explain its failures.

Second, the sonorous cry of no politics with terror ignores the essence of democracy. As Henry Adams put it: “Politics, as a practise, whatever its professions, has always been the systematic organisation of hatreds.” In other words, multiple political parties exist because there are different individuals with varying beliefs. In a democratic system, the heterogeneity of polity—of ideologies; leaders; and policies—is an essential prerequisite for its proper functioning. If political parties cannot criticise each other, how can they compete for

By punishing bad politics, and, in turn, rewarding good politics, voters signal the kind of leadership and policies they want. If parties believe that there are no electoral gains from taking counter-terrorism seriously, they are unlikely to do so.

political power? It is their criticism of each other and their attempt to distinguish themselves, which helps the voter choose a particular political formation.

Third, at its heart, tackling terror is a matter of governance. An ineffectual government which fails to ensure good roads or cannot ensure the minimum level of public goods can hardly be expected to be an effective anti-terror agency. Naturally, if terror cannot be de-linked from processes of governance, competition among different political parties is essential—indeed welcome. After all, political parties regularly compete on poverty which arguably afflicts far more Indians than urban terrorism. Unsurprisingly, the angst against mixing politics with terror is led by the elite which has long seceded from the republic and shown little interest in the democratic process. Because they have no stake in governance except for a “world class anti-terror policy”, as one prominent actor put it, they find politics on terror distasteful. They are fundamentally disinterested in politics—of any kind.

It would be reasonable to argue that all politics cannot be electoral—there is a case for moral leadership—pursuit of national interest above personal aggrandisement. But if the history of the world is

any indicator, then moral leadership—with honourable exceptions—has caused more damage to national interest than frequently derided electoral politics. Because placed as they are on a higher pedestal, a ‘moral leader’ frequently escapes accountability simply by citing a lack of personal interest in the policies pursued. Be that as it may, it does not necessarily follow that the policies they favour are also the correct ones or the ones most beneficial for the people. Electoral politics frequently frustrates and might even bring about policies which are damaging to the national interest—nevertheless, accountability and an ability to force a change in policy is arguably easier in politics of numbers than in politics of morality.

So instead of initiating a war on politics itself, it is more important to examine the kind of politics. If it is of the kind that Amar Singh indulged in after the Batla House encounter, or the BJP hypocritically pursued while defending those accused of carrying out the Malegaon blasts, then it harms national interest. In states like Kerala, convicted bombers like Abdul Nasser Madani have been glorified. Similarly, the UPA government’s neglect of internal security was at least partially guided by communal concerns.

It is here that the role of voters is crucial. By punishing bad politics, and, in turn, rewarding good politics, voters signal the kind of leadership and policies they want. If parties believe that there are no electoral gains from taking counter-terrorism seriously, they are unlikely to do so. Similarly, by punishing leaders who defend terrorists, citizens can indicate clearly their intolerance for terrorism—of any kind or ideological hue. The simplest way to accomplish this is to vote—for the right candidates; parties; and policies. A slightly more challenging task is to be informed citizens—to question; demand; and offer feedback. Pursuing national interest is important but politicians are unlikely to do so at the cost of personal loss. It is only the correct incentives from voter which can force their hand. And in a democracy there is no stronger incentive than the one offered by the power of vote.

Democracy matters. Politics matters. Incentives matter. Even a government which has refused to take terror seriously, was forced to act in the aftermath of Mumbai attacks: to sack ministers; to enact tougher laws; and to launch a review of internal security. It acted not because of the fear of the chatterati but because of politics—the voters.

Rohit Pradhan is resident commentator on *The Indian National Interest* and blogs at *Retributions* (retributions.nationalinterest.in).

GLOBAL TERRORISM

Put Pakistan “on the table”*Terrorist aggression cannot be terminated by appeasement*

VANNI CAPPELLI

Even as terror still raged in Mumbai, an American counter-terrorism official equivocated. "We have to be careful here. When you posit a Kashmiri connection, that puts Pakistan on the table. That is huge, enormous, but what does it mean?"

Such hesitancy is emblematic of how Pakistan is not held to the same standard of scrutiny as other countries when it comes to state sponsorship of terror. Would there have been the ensuing analytical caution, demands for "hard evidence", and calls upon the victimised nation to "show restraint" if a major terrorist attack elsewhere had been even remotely linked to the security services of Libya, Syria, or Iran?

Now that the national origin of the attackers and their controllers has been established, it is high time that the world finally put Pakistan "on the table". For seven years after 9-11, the American struggle to bring the perpetrators to justice, deny sanctuary to terrorists, and combat radical Islamism in the South-Central Asian region from which the attacks emanated is approaching mission failure on account of its refusal to do so.

The critical deterioration of the security situation in Afghanistan has led to a record toll of lives, the cessation of reconstruction efforts in the country, deepening misery for the population, and a collapse in confidence in the government. In the Tribal Areas of Pakistan, the Taliban and al-Qaeda have established a strong redoubt from which they can perpetuate chaos in Afghanistan and plot new attacks on America and the West. Mumbai only confirmed the extent of the militants' capacity.

These stark realities manifest the failure of the Bush administration to adequately respond to 9-11 by transforming the underlying geopolitical dynamic that produced that event. Fighting Islamic militancy was wrongly conceived in terms of denying terrorists sanctuary in a single state, Afghanistan, whereas what is needed is an overarching security structure in the South-Central Asian region as a whole that will deal with the root cause of the phenomenon there.

And that root cause is the nature, ideology, and historical behaviour of America's putative ally, the

military-security services complex based in the city of Rawalpindi that has ruled Pakistan since the 1950's, which has traditionally manipulated the United States to serve its own ends.

The current confusion over Pakistan's loyalties is but the latest turn in a shadowy game that dates to the beginning of the US-Pakistani alliance over half a century ago. America's unrealistic view of that country's army as a professional force available to serve its national security requirements as needed has always proceeded from a dangerous refusal by policy elites to confront the Pakistani state's culpability in the rise of Islamic radicalism.

Violently torn from British India upon its independence in 1947 under the cry "Islam in danger", Pakistan's creation was justified under the idea that it would be a homeland where Muslims could live free from Hindu domination. Yet its elites have always had a hidden agenda of fostering extremist religious sentiment in order to perpetuate feudalism while suppressing democracy, social change, and the rights of ethnic groups and women, above all by channelling national energies into an endless feud with India over Kashmir.

America's early Cold War planners took the view that Pakistan's religious basis and strategic locale guaranteed its staunch anti-communism and utility to the United States. Massive amounts of military aid were provided without ideological scrutiny or effective checks on how it would be used.

Yet the provision of arms to Pakistan did not go forward without a powerful dissent.

Writing to Secretary of State John Foster Dulles on December 30, 1953, Chester Bowles, former ambassador to India and perennial foreign policy Cassandra, adamantly opposed the deal on the basis that it would "isolate Pakistan, draw the Soviet Union certainly into Afghanistan and probably into India, eliminate the possibility of Pakistan-Indian and Pakistan-Afghan rapprochement (and) increase the dangerous wave of anti-Americanism throughout India and other South Asian countries" —a vision of chaos which described with exact prescience the negative trajectory of the region's history over the succeeding half century.

It was a collision course which culminated in New York and Washington on 9-11.

That the Bush administration in the wake of 9-11 turned to the very entity responsible for turning South-Central Asia into a stronghold of Islamic militancy as a "key ally" against these same forces must stand as an instance of conceptual lag unequalled in the history of American foreign policy. Given Rawalpindi's irreducible geostrategic paradigm of employing Islamic fundamentalism to crush progressive forces at home and extend its power abroad, it is as oxymoronic to look to it as an ally against radical Islamism as it would have been to seek to extend the wartime alliance with the Soviet Union into one against communism.

Pakistan's army has shown persistence in its endeavours over many decades. Its ties to militants are not the vagaries of "rogue elements" but represent the integrated policies of the military-security services complex itself. Such an entity does not make a sea-change in its ethos merely because it has been threatened with dire conse-

quences unless it switches sides—it only pretends to, especially if receiving billions of dollars in renewed military aid will be the result.

And if some of Rawalpindi's jihadi assets have slipped beyond its control while the army conducts desultory campaigns against militants to appease America, all the better for portraying Pakistan as a victim of terrorism, rather than the state sponsor of terror it has long been. Allowing a powerless civilian administration in Islamabad to be the public face of the country completes the illusion.

American military assistance to Pakistan over the last half century has enabled Islamic fundamentalism, perpetuated the India-Pakistan conflict, and led over and over again to death and destruction. It has prevented the development of democracy, civil society, and equitable economic relations in Pakistan. With mounting evidence that Rawalpindi continues to support the Taliban in pursuit of its historic goals, it is now being used to kill American and other coalition soldiers.

The incoming Obama administration must confront this fact, and bring American national security policies in line with reality. Winning in Afghanistan means keeping Pakistan out of Afghanistan, and that means not only sending more troops

and rebuilding the country, but forging regional alliances with nations whose ideals and interests dictate that they are actually with the United States in this fight. Democratic India, a rising world economic and military power which together with Afghanistan continues to bear the brunt of Pakistan's recidivist behaviour, should have been the logical choice for "key ally" against terrorism once it became tragically evident that this behaviour had consequences for the United States as well. Yet the early strategic soundings coming from the Obama team are not promising. While correctly placing Pakistan at the heart of the region's troubles, it seems to think that brokering an accord on Kashmir—with the major concessions coming from India—would somehow remove the incentive for the Pakistani army to support Islamists in Afghanistan, enhance the power of the civilian government in Islamabad, and pave the way for a lasting peace among the three countries.

This approach ignores the deep ideological basis of the ties between Rawalpindi and its jihadi assets, the enormous financial benefits that flow to the army as a result of its holding real power in the country, and the degree to which it sees continued conflict as essential to that power, providing as it does legitimacy to its *leitmotif* of "Islam in danger."

Aggression can never be terminated by appeasement, especially when there is not a clear picture of the nature of the entity being appeased.

An American-Indian-Afghan alliance aimed at containing Pakistan is the only way to counter the fundamentalist geopolitical dynamic which produced 9-11 and the Mumbai attack. Such an alliance would raise an overarching security structure that would have the same effect NATO had on the Soviet Union.

By cutting off military aid to Pakistan, naming it a state sponsor of terror, and working with its neighbours to contain it, the United States and its allies would effect the same internal collapse of a malevolent order as occurred when the Soviet Union's weak economy proved unable to sustain its military superstructure. That would give Pakistan's democratic forces their first real chance to take control of their country, end the army's sponsorship of terror, and prevent future 9-11's and Mumbais. For in the final analysis, historical pathologies can only be dealt with by a transformation of the existential situation in which they thrive, not by the policies of appeasement which have brought on our present crisis.

Vanni Cappelli is the president of the Afghanistan Foreign Press Association.

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JAMMU & KASHMIR

The people have spoken

Democracy returns, and with it comes a new opportunity

SUSHANT K SINGH

AMONG THE plethora of despondent stories emanating from various parts of the country throughout the year, the last two months have brought a significant share of good news from the state of Jammu & Kashmir. It has left most political commentators astounded that not a single constituency in Kashmir valley has registered a voting percentage in single digits. The hardcore support base of the separatists in Srinagar district has recorded a voting percentage of over 20 percent, compared to barely 5 percent in 2002.

This faith in electoral democracy by the ordinary Kashmiri has demolished many myths about the sway of separatists in the state. The demonstrations earlier this year about Amarnath shrine land transfer were an emotive issue that touched a cord with local populace in both the Jammu and the Kashmir regions. In the Kashmir valley, the Hurriyat leadership was not the legitimate spearhead of the agitation although it had successfully created the impression of spearheading these

demonstrations. It merely happened to ride on the crest of the emotional outpouring against the supposed 'economic blockade' of the Kashmir valley by the agitators in Jammu.

Many media analysts in Delhi were so taken in by the images and stories from the Valley that they began to support a Kashmir's secession from the Indian state. They had predicted that these assembly polls would be a huge failure, with polling percentages unlikely to reach the levels attained in 2002. However, these elections have provided a resounding answer to the separatists and their undiscerning supporters in the Indian media. The leadership of the Hurriyat, including Mirwaiz Omar Farooq and Syed Ali Shah Geelani, which had issued a call to boycott the polls, has been forced to accept its failure to gauge the mood of the ordinary Kashmiri on the elections issue.

There is a tendency among commentators now to de-link the three issues—a sentiment for *azadi*, the separatists' call for boycott of the elections, and

the heavy voting percentages recorded in the state. These analysts portray the high voting percentages as a vote for local development that is totally unrelated to the call for *azadi*. But this is the hallmark of a democratic process where public grievance over a single issue does not adversely affect participation in the electoral process. As with elections in other parts of the country, there were many other significant stories at play in the state of Jammu & Kashmir.

The 2008 elections have shown that there is a distinct rural-urban divide in the state, including in the Kashmir valley. Like other parts of the country, the rural population is a keen participant in the electoral process while the urban population has tended to stay away from the electoral politics. The downturn in the terrorist activity in the state has allowed rural voters a newfound freedom to cast

polls are legitimate representatives of the people of the state. The Indian state must recognise and bolster this legitimacy through its subsequent actions. It is important for India to highlight this in its public messaging to the international community.

While the electoral machinery, the security forces and the governor deserve praise for the success of these elections, it is important to quickly get past the celebratory phase—it is a good time to look ahead and leverage this opportunity to bring complete normalcy to the strife-ridden state. The new government should start with certain bold and signal measures that further deflate and marginalise the separatists. It could put in place a plan to reduce a component of security forces from internal security duties in designated regions of the state. More importantly, the new government should reward the regions that have witnessed higher voting percentages by putting them on a path of fast-track development, irrespective of the political affiliation of the elected representatives of that region.

The greatest challenge that the new state government faces in light of the events of the summer of 2008 and these elections is to reduce the over-representation of Srinagar in the affairs of Kashmir valley and the undue prominence of the Kashmir region in determining the policies of the state government. It should engage with other regions of the state and announce a time-bound plan for rehabilitating Kashmiri Pandits. Members of the displaced Pandit community who are willing to return to Kashmir should be provided an opportunity to do so while others should be provided with facilities to help them settle in other parts of the state.

The central government should resist the temptation to provide another grand financial package for the state in wake of these successful elections. It should instead institute measures that facilitate integration of Kashmir with the rest of the Indian nation—physically, financially and emotionally. These elections have thrown up an invaluable political opportunity to move towards a political resolution. The new coalition government of Jammu & Kashmir must have the unstinted support of the central government—as indeed the international community—to chart a course towards peace, stability and prosperity.

Successful elections have discredited the separatists but they are merely the start of a long and unending journey towards normalcy in Kashmir for the governments at Delhi and Srinagar.

their vote, away from the fear of the gun of the terrorists and coercion by the security forces. On the one hand, rural Kashmir seeks development, a process that has bypassed them since independence. On the other, urban Kashmir yearns for peace away from the fatigue of demonstrations, strikes and curfews—a peace that will bring back tourists into the state and create other opportunities for employment.

A new factor—albeit a small one—is a new generation of voters that has not seen life without militancy. Having been privy to the wages of incessant violence, this new generation is keen to explore the power of the ballot. It is this young generation that is seduced by India's growth story. It believes that an elected state government can replicate the same growth story in a peaceful environment in the state.

None of this, though, diminishes the loss of credibility of the separatist leaders. The often overwhelming rejection their call for a boycott is a clear vote of no confidence in the separatist leadership. There remains no *locus standi* for the Indian government to negotiate with the Hurriyat or consider them as a legitimate party to the resolution of Kashmir dispute. There should be little doubt now that the political parties that participated in the

Sushant K Singh is a contributing editor of *Pragati*.

Essential readings of the month

RAVI GOPALAN & VIJAY VIKRAM

► Pirates of Somalia

INA Chatham House briefing paper (*Piracy in Somalia: Threatening Global Trade, Feeding Local Wars*), Roger Middleton reviews the phenomenon of piracy off the coast of Somalia, the modus operandi, latest trends, and the international response thus far.

He lists the consequences of failure in adequately combating piracy ranging from a further deterioration of the situation in Somalia, costlier international trade, environmental catastrophe and potential terrorist financing.

Dr Middleton makes a case for an immediate plan to ensure uninterrupted supply of food aid to Somalia and provides options for a medium term international response including organising safe shipping lanes, building a Somali coast guard, enhanced naval presence, and a no-ransom policy, along with their pros and cons.

Analysing the implications of China sending a naval task force to the Somali waters, in a paper for the Chennai Centre for China Studies (*China's Anti-Piracy Patrol—Strategic Dimensions*), B Raman notes that what is currently projected as an anti-piracy operation could well emerge into a permanent presence “of strategic value to the Chinese Navy in terms of power projection in the waters to the West of India” and counter India’s maritime power projection in the waters to its East.

He also notes that Pakistan and China have recently concluded a military co-operation agree-

ment, under which the former is believed to have offered the use of Karachi port to Chinese ships. China’s presence in Karachi might also be used to deter India from threatening Karachi in the event of a military confrontation in the wake of the Mumbai terrorist attacks.

► Rules for sharing the Arctic

INGO WINKELMANN of the Stiftung Wissenschaft und Politik/German Institute for International and Security Affairs (*Fixed Rules of Play for Dividing Up the Arctic Ocean*) analyses the Ilulissat declaration announced in May 2008 by the A5 (five Arctic circumpolar nations comprising Denmark, Russia, Norway, Canada and the United States).

Firstly, the A5 (rather than the broader Arctic Council) wishes to lead the way in resolving issues concerning the future of the Arctic Ocean, including mineral resources, shipping routes, and the protection of the ecosystem.

Secondly, the A5 intend to respect the provisions of the international law of the sea, which includes procedures to extend the boundaries of the national continental shelf.

Thirdly, it rejects efforts to create a multilateral legal order for the Arctic, analogous to the Antarctic Treaty, which could constrain its handling of the resources of the Arctic Ocean.

► Water wars

BRAHMA CHELLANEY, professor of strategic studies at New Delhi’s Centre for Policy Research, predicts that while

past wars were fought over land and the current wars over energy, future wars could be fought over water. In a Japan Focus article (*Averting Asian water wars*), he argues that water holds the strategic key to peace, prosperity and public health, more so in Asia due to its significantly lower per capita availability of freshwater.

He calls attention to the unique status of the Tibetan Plateau as the source of all the major rivers of Asia and the potential for a Sino-Indian conflict on China’s plans to construct a dam at the “Great Bend” of the Brahmaputra river. He advocates creation of institutionalised river-basin arrangements involving all riparian neighbours on the model of successful interstate basin agreements such as that of the Indus, Nile and Senegal rivers.

► On India’s defence industry

N NEIHSIAL engages in a discussion about what it takes to create a ‘vibrant defence industry’ in the October edition of the IDSA’s *Strategic Comments*.

India’s new defence procurement policy encourages greater foreign and domestic private sector participation. The government has even signalled its willingness to consider 49 percent foreign equity shares on a case-by-case basis. The immediate effect of this liberalisation has been a significant number of licences being applied for and issued to private companies, both domestic and foreign for producing various components. Indian companies are form-

ing joint ventures with the global industrial defence giants of the United States, Western Europe and Israel.

Hence, significant levels of Western technology are set to enter India’s traditionally Russian defence infrastructure through private companies. This is bound to have a few consequences. Firstly, in the face of competition from private Western companies, Russian defence outlets are likely to scale down their business malpractices of project delays, delays in providing and spare parts and repeated unwillingness to transfer technology.

Moreover, stiff competition should curb the tendency by Russian suppliers to jack-up costs midway through a project. However, the fact remains that the Russian defence enclave is embedded in India’s defence infrastructure and this will ensure the continued dominance of Russian-origin technologies for some years.

In the end, Indian industry must ensure that it can viably integrate two major technology streams, the incoming western stream with the prevailing Russian-origin variety.

In doing so, the industry should aim to develop an Indian brand of defence technology, one that can be exported without any possible objections on the grounds of violation of intellectual property rights. Hence, Indian industry must aim to become a producer and exporter of defence technology and hardware rather than simply a consumer.



INTERVIEW

Human capitalism

A discussion on ideas for India's future with Nandan Nilekani

NITIN PAI

IN ADDITION to being co-chairman of the board of Infosys Technologies, Nandan Nilekani is engaged in a number of public policy initiatives—he is the president of the National Council of Applied Economic Research, a member of the National Knowledge Commission, a member of the board of governors of the Indian Institute of Technology, Bombay and is involved in numerous other governmental and non-governmental initiatives. The range of his interests and his passionate commitment to India's future comes out in his book *Imagining India - Ideas for a new century* (reviewed independently on page 25). As indeed, in his voice when he spoke to *Pragati*.

How would you define India's national interest? When we posed this question to Jaswant Singh, he said it was the preservation of the resilient core of Indian society that is the heart of India's national interest, because it is Indian society that keeps the wheels turning whatever is the political structure of the state. According to K Subrahmanyam, India's national interest is to ensure high rates of growth, alleviate poverty and ensure good governance.

Anything that we can do to make the country stronger, more equitable, more secure, more fair and which can truly leverage the extraordinary opportunity—that would be the national interest. The definition of Indian society is amorphous and is prone to multiple interpretations. My view is that it is very rare that nations get an opportunity to lift a billion people out of poverty. And due to a confluence of events that I have described in my book, we have a truly extraordinary opportunity that comes once in a millennium. It is in our national interest to make the most out of that opportunity and achieve economic independence and fulfilment for all our citizens—doing that would automatically address the other challenges that we have.

Human capital

Your book is about ideas, and you have quoted a number of people and their ideas. If you were to pick one to focus the governance agenda of the coming central government, what would it be.

The most important idea and the central theme that I start off in my opening chapter is the change

in our view of the population. For a long time, in part due to international pressure, we treated our population as a burden and something that needed to be controlled. But today, we've finally realised that people are our biggest strength, our assets and not liabilities, that human capital is what makes you tick. The moment you think of our people as human capital then automatically the challenge becomes how do we make sure they are healthy, educated, have roads to go to work and school, have lights to study at night, have jobs and can become entrepreneurs. The fundamental shift in the way we think about population is the central theme of my book and everything I talk about is how do we leverage and exploit that human capital, and what are the obstacles that you see in doing that.

If I were to stretch that - what would be the policy measure that would stem from this idea:

Part of it is execution—in areas like single markets, urbanisation, primary education and infrastructure, for instance, I don't think it's a policy issue so much, because there is a demand for that from the people, and there is political will. It is about doing it right, on time and with quality. Take primary education—there's a huge amount of money coming down the pipe, and there's a huge demand from the poor who have realised that lack of education impairs their economic mobility. So you have demand and supply, but execution is a problem—getting schools to work, getting teachers to come...

The policy issues—which I talk about in my third section—first, we need to completely deregulate our higher education: it is unfair on our part to deny our children a good education. That's exactly what we are doing by all these artificial constraints we have put on the sector, in the form of the whole "HRD Raj" that we have.

Second: labour reforms, and creating an environment where companies and well-meaning entrepreneurs can create a large number of jobs with the flexibility to be able to contract the work force when necessary. Today, due to the inflexibility of our labour laws, entrepreneurs are developing capital intensive industries when there are a large number of people who need jobs. On the other hand, 93 percent of the employment in the unorganised sector where people have no rights whatsoever. This is clearly an untenable situation. We need to change that and create a large number of jobs in the organised sector.

And third, if we are able to do these then we don't really need reservations, because reservations is a way to parcel out quotas from an small

existing capacity. It is much better to expand capacity so significantly that nobody really needs reservations; and we move towards a system of affirmative action where we offer people opportunities instead.

Right shift

It's hard to dispute your contention that the extremes must be rejected in favour of a fine balance. But anyone born before 1991, and perhaps after that too, has been raised on a diet of socialism. The population may be young, but most of our politicians and decision-makers still carry socialist baggage. In this climate, isn't it necessary for those who believe in liberalism to take extreme positions so that the balance moves towards the right? In other words, shouldn't those who want to bring about centre-right outcomes take an unabashed stance in favour of individual rights and economic freedom?

The experience of the world, including the current economic crisis has demonstrated that unregulated markets are as bad as unrestricted socialism. Markets are very powerful and useful instruments...they are the engines of economic

The moment you think of our people as human capital then automatically the challenge becomes how do we make sure they are healthy, educated, have roads to go to work and school, have lights to study at night, have jobs and can become entrepreneurs.

progress and the only known way of raising the standard of living of billions of people. At the same time I think we need to balance markets with very good public governance and public accountability. The last section of my book, which is about anticipating the future, looks at health, pensions, energy, environment and technology. There is clearly a huge role for the state to make the right choices so that it can create the right environment in which markets can operate.

Markets should operate freely within a framework of rules, regulations and incentives. I'm not in favour of a state that hunkers down and decides who should produce what but more in terms of public policy. For example, if you want to drive a post-carbon economy, you can't do it in a big way without public policy. I'm a strong believer in markets, but I also think that markets should be complemented with a very strategic thinking state.



I'm a strong believer in markets, but I also think that markets should be complemented with a very strategic thinking state. The state has a huge role: to make the right choices and create the right environment in which markets can operate.

But is there enough in the public discourse in terms of selling market ideas to the people?

Absolutely not. In fact, one of the arguments I make in the book is that half-done reforms are worse than no reforms. Because when you have half-done reforms, those of us who have access to education, English language and jobs can really prosper in this economy, and those who don't get shut out. Rather than positioning our reforms as something which is to make rich people richer, the real part of reforms is to broaden the access to opportunity—of education, infrastructure, healthcare to the common man. Reforms have not been positioned as something that lead to improved opportunities. That's one of the political failures. All our reforms are done under stealth by our technocrats as if it's something they shouldn't be doing. If sold properly, reforms are pro-people, and not pro-rich. This has not been sold well-enough.

In the 20-odd months between your starting the book and its publication, the world—and India—is in a crisis. The UPA government's fiscal profligacy has left us staring at a large fiscal deficit, severely constraining India's ability to implement fiscal stimuli. Now exports have begun to dip, perhaps indicating coming heartburn on the balance-of-payments front. And the terrorist attacks on Mumbai have not only resulted in a geopolitical shock (the benign half-decade has come undone) but also exposed immense shortcomings on the internal security front. In your book you write about the transformative effect of crises—1991 changed our attitude towards our entrepreneurs. What do you think the current, manifold crisis, will transform?

There are broadly two issues: one, the global economic crisis and its implications on India; and two, the issue of security.

On the first, the whole world was in a bubble phase of growth and it made us complacent. The 8-9 percent growth we had was not real growth. It was bubble growth. And this led to two things: one, it took our eye off the ball in terms of the fundamental structural reforms that we needed, and

two because it created a fiscal robustness due to higher tax collections, a lot of the money was spent on populist schemes. These are the two negative consequences of the bubble.

Now the bubble is gone and our growth rates will come down to normal, and now it is becoming increasingly apparent that we cannot continue without fundamental structural reforms: that broaden access to education, employment, infrastructure. The message to us that it is back to basics. It is very clear that we can't afford to have an indefinite number of populist schemes because we can't afford it, and we have to use the money for old fashioned things like building roads and sending children to school. Whether it will happen or not depends on the politics of the situation, but it's a strong message to go back to basics.

On the issue of terrorism, the Mumbai attacks have demonstrated very clearly that we really cannot ignore the need to have a strong, secure and a well-governed state. It's not as if we have our markets and the stock exchange, we make some money and we go home. The reality is that we must have a well-governed state, secured borders, a good police, law & order. Those points have come through very strongly, especially for the middle class. And to the extent this will galvanise the middle class, which has by and large abdicated, and motivate it to engage with the political process and demand better accountability and governance, then from this tragedy we could have a good consequence in the long term.

What lessons does the success of Infosys have for Indian governance?

Obviously running a company and running a country are two different things—running a country is infinitely more complex. Having said that, Infosys is a story of common people aspired to do something on a big scale and were able to accomplish that.

If you look at the founders and even the current senior management, they all come from very pro-

saic, middle class backgrounds. But because we had a larger vision of what is possible, we were able to take ordinary people and make them achieve extraordinary things. India can do the same. India is at such a phenomenal position that if it can set its vision high, and provide leadership that can motivate people, then the 21st century can be an Indian century.

Intellectual infrastructure for the 21st century

From Bombay Plan to Bombay Club to Bombay House—we've seen the entrepreneurial shift from outward-looking Indian businesses. Yet, Indian businesses invest precious little in improving the overall public policy and public management capacity. Can the Indian entrepreneur continue to be globally competitive in the face of poor governance at home? How can corporate India be made to invest in thought-leadership (think tanks, endowed chairs in Indian universities), training of public officials (policy schools and scholarships) and indeed in clean politics. Arun Shourie, for instance, recently suggested that shareholders require corporations to set up trust funds for political contributions, and ensure that these are spent only on candidates without criminal records.

It's a little early to say whether that will happen. I've been involved with a large number of initiatives to set up institutions, think-tanks and so forth, and while the response is improving, a lot more can be done. If you compare the 21st century India with the US in the 20th century, the Americans really built huge intellectual infrastructure through philanthropy—the Ford and Rockefeller foundations, and Brookings, to name a few—many great institutions were set up and they do it to the current day. We haven't done it—barring the Tatas and some of us who are doing it—it's not widespread. That needs to happen very rapidly.

I think the terrorist attacks have woken up people to the strategic risks of not focusing on a strong and secure state. That might translate into multiple kinds of things: more political activism, or more demand for de-politicisation of the security agencies, or more initiatives on governance reforms. I believe it should also translate into providing the intellectual infrastructure for the 21st century.

What I've done with my book, is to lay a roadmap for what are the ideas that we need to think about. We really don't have a roadmap from any other part of the world: we have to learn from the mistakes made in the developed countries and chart out a whole new plan. To do that we need a lot of introspection and I don't see that level of thinking happening. So my book is a broad agenda and it's time we got into the details of each of these

things and create the intellectual infrastructure to take it further.

Things are not going to change overnight. Indian politics will change over the 10-12 years. In 2020 we will have 500-700 million people under the age of 25, 90 percent of them literate, with a functional knowledge of English, we'll have 35-40 percent urbanisation, and media and technology an order of magnitude greater than today. If the seeds of that are laid today they will become the basis for huge changes in the way political parties function and governance improves. At some point the politics of competitive development will overtake the politics of caste, religion and creed, which is what we have today. That shift will occur over the decade.

We really don't have a roadmap from any other part of the world: we have to learn from the mistakes made in the developed countries and chart out a whole new plan. To do that we need a lot of introspection and I don't see that level of thinking happening.

Engaging China

Will India modernise its infrastructure before the Chinese learn English? What if it is the latter? More generally, how do you see the India-China relationship evolving over the next few years.

It's more than that. If the Chinese had their way, they'll make Mandarin one of the global languages, if not the global language. That way, the playing field moves to their strength. India is a swing country in this because our embracing English in a big way will be an important reason for English to continue being a dominant global language. India is in a strategic position. One of the things I have been advocating is that not only should India learn English internally, we should actually spread English globally. The more strongly we do this, the more strongly we secure our own strategic position as opposed to someone whose language is not English. We have to make sure that remain the dominant business language of the world and global communications.

And yes, we should modernise our infrastructure before China catches up on the language front.

With China, we will collaborate in some areas, compete in others and partner each other in yet others. There are areas where we have common

interests: for instance, on trade and environment. Both countries have an interest in keeping global markets open, in getting an efficient, effective and equitable deal on climate change, in getting a larger say in international organisations like the World Bank, IMF, G-7 which have to recognise the shift from West to East. The interests are not 100 percent common but broadly in the same ball park. There are some places where we compete: as economies and for natural resources. And there are areas we can be partners—like in bilateral trade. So we will need to deal with China differently, depending on the issue.

What's next for Nandan Nilekani? In one year, and in five years?

I certainly would like to engage in the change process of India. I strongly feel that I am fortunate to be in the right time, at the right place, and with perhaps the right position to contribute. That sense

of history is very much in me. But I don't believe that you have to necessarily be a formal politician to bring about change in India. I am involved with a whole number of initiatives—and some of them will succeed, and some will not. But even if a few of them do then I would have made a reasonably material contribution to the direction where India is headed. So I think that's good for a day's work—a good decade's work.

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COUNTER-TERRORISM

Improving India's anti-terrorist responses

The need for scenario planning and red teaming

SHAUNAK SAGARKHEDKAR

THE TERRORIST attack on Mumbai on November 26, 2008 was a Black Swan, a low probability high impact event marked by retrospective predictability. Black Swans seem predictable and explainable after they have occurred. The Mumbai attacks are no exception to this rule and have spawned a fratricidal exercise with various intelligence and security agencies trying to exculpate themselves by claiming to have predicted the attacks on time.

The article seeks to identify the reasons for the severe breakdown in the state's decision-making process during the attacks, and tries to evolve recommendations for bolstering the process in order to enable the state to minimise casualties in the future.

At the abstract level, the attacks were a competitive conflict between non-state actors (albeit likely to have been backed by state machinery) and the Indian state. The decision-making process of the Indian state on display during the attacks left much to be desired. That the Indian state would ultimately succeed was never in doubt given its superior ability to mobilise resources.

And yet the terrorists managed to hold out for more than two days, inflicting severe human, material and moral damage. This can be attributed partly to the terrorist's training and partly to the state's broken decision-making process.

November 26, 2008 – Incorrect orientation

The attacks began at 21:10 with terrorists attacking patrons at the Leopold Cafe at Colaba. Attacks on commuters at Chhatrapati Shivaji Terminus followed. Initial reports mistook the attacks for a gang war and the police orientated themselves accordingly. In the absence of a policy that set clear rules of engagement, the policemen orientated themselves by analysing and synthesising available information (gunfire) within the perspective of their previous experiences (fighting the Mumbai "underworld"), and acted accordingly. This would have been a source of significant advantage in a conflict against the Mumbai "underworld," but against trained and well-equipped terrorists with superior orientation, this turned into a severe disadvantage.

The Maharashtra state government displayed an astounding lack of orientation during the attacks. It took more than ninety minutes for the Chief Minister to be briefed and subsequently request the deployment of the National Security Guards (NSG), displaying an inability to orientate itself in the face of overwhelming observations. The Union Ministry for Home Affairs (MHA) added 105 minutes to the delay, and the National Security Guards (NSG), given orders by the MHA only at 00:45 on November 27th, were ready within 15 minutes. There would be further delays due to non-availability of air and land transportation, pointing to the lack of orientation on the part of various arms of the state.

The state government had been provided with intelligence inputs indicating that a terrorist attack on Mumbai was likely, and that the Taj Mahal Hotel and the Oberoi Trident Hotel were the targets. The reports had also highlighted that the targets had been reconnoitred and that the terrorists would infiltrate via the sea. The Research & Analysis Wing (RAW) had provided a warning on November 18, 2008, eight days before the attacks actually took place. Despite the state having received multiple warnings (observations), the police orientated by believing that the incidents of gunfire were related to a gang war. Either the reports did not filter down to the operational level or they were ignored. No measures were taken to prepare the police for an eventuality as mentioned within the intelligence reports and the excuse given was that there was no “actionable intelligence” presented.

In Mumbai the NSG were hampered by a lack of maps detailing the layout of the buildings. The terrorists had superior awareness of the building layouts and this allowed them to manage the situation effectively, engaging the NSG at will and disengaging and withdrawing with remarkable effectiveness. This information asymmetry enabled the terrorists to orientate faster, allowing them to operate at a higher tempo than the NSG, and seems to have enabled them to hold out for so long.

In the end the state had to fight a battle of attrition, wearing down the terrorists and exhausting their resources. The state was forced into that position by its inability to effectively orientate itself, undoubtedly causing the operation against the terrorists to be prolonged, and resulting in far higher casualties (civilian and otherwise). In doing so, the state allowed ten terrorists to score a psychological victory by holding off the might of the Indian state for more than two days. It only takes a cursory look at online forums populated by Paki-

stani fundamentalists to realise the impact of the terrorists psychological victory.

While nobody expected such attacks to take place, the state need not be completely unprepared and caught unawares. It needs to become more “cerebral” if it is to succeed against an enemy that ceaselessly innovates operationally and strategically. Effective and efficient responses to Black Swans is only possible with a certain level of familiarity with the unfolding situation. Such familiarity can only be achieved if the state actively engages in scenario planning and red teaming.

Scenario Planning & Red Teaming

Scenario planning involves the construction of plausible scenarios and suitable responses. Red teaming is the practice of viewing a problem from an adversary’s perspective. The goal of most red teams is to enhance decision-making, either by

The state need not be completely unprepared and caught unawares by terrorist strikes. Effective responses to Black Swans are possible with a certain level of familiarity with the unfolding situation. This can be achieved by scenario planning and red teaming.

specifying the adversary’s preferences and strategies or by simply serving as a devil’s advocate.

The Indian state must start scenario planning and red teaming involving central and state governments. It should begin by forming a dedicated red team for this purpose, attached to the MHA at the central level and reporting directly to the Union home minister. This red team should be staffed by experts from the intelligence services and Special Forces units from all 3 arms of the armed forces. Civilians from the strategic studies community and even experts from the armed forces of friendly nations can be tapped. The team should be staffed to maximise diversity of experience and intellect.

The red team should participate in “wargaming” exercises with the security apparatus from every state in country. The red team should “war-game” against bureaucrats and the police brass of each state, along with the Border Security Force in case of border states, and the Coast Guard and Navy in case of states with coastlines. The objective of these exercises should be to probe each and every aspect of the state’s defences in order to identify as many vulnerabilities as possible, then

utilise this knowledge to develop scenarios and recommended counteractions. During these exercises, the red team must utilise inputs that the state in question may have received from the intelligence agencies.

The exercises are meant to serve as a means of continuous improvement for the state apparatus by highlighting vulnerabilities and recommending steps to mitigate their impact. Considering the nature of these exercises, they are likely to face resistance from the entrenched bureaucracy. Linking successful and frequent conduct of these exercises to central funds for police force modernisation may help soften the resistance and enable successful completion. The results will need to be kept confidential. It will also serve to make the state apparatus more amenable to being “questioned” by the red team if they are assured that they will not be publicly humiliated. The charter of the red team must, however, include powers for periodically reviewing the implementation of their recommendations.

Police quick response teams under state governments, equipped with superior weapons and trained in better tactics are a golden mean between the current situation and the plans for NSG garrisons in every major city.

Policy and Rules of Engagement

There is an urgent need for a national policy on terrorism that clearly delineates the rules of engagement for police and paramilitary units faced by potential terrorist threats. By requiring that police units assume reports of gunfire to be terrorist related, an anti-terrorist orientation can be forced upon the personnel, helping reduce the number of police casualties in future incidents. This policy needs to be accompanied by a corresponding weapons upgrade through purchase and an improvement of tactics through training. Given India's severe legal control of firearms in the hands of the public, such a policy should not result in too many false-positives.

Although each part of the system must orientate itself separately, a uniformly applicable policy and rules of engagement can go a long way in ensuring accurate and uniform orientation throughout the entire system.

Quicker Reactions

State governments should raise and maintain Quick Reaction Teams (QRT) along the lines of those maintained by the Indian Army in Jammu & Kashmir (J&K). These teams are raised and maintained solely to respond to terrorist incidents and as such do not suffer from the orientation problems that other units might. The personnel chosen could be trained, among others, by those who have served in QRTs in J&K. Policemen selected should spend 6 months attached to Indian Army QRTs in Jammu & Kashmir to learn their tactics. Police QRTs, equipped with superior weapons and trained in better tactics would provide a swift response with comparable firepower within minutes of a terrorist incident. This should help mitigate civilian casualties during the period before the NSG are deployed. This solution serves as a golden mean between the situation as it exists, and hypothetical plans for NSG garrisons in every major city.

Buildings' Layouts

Elite units such as the NSG need to be provided with as much information as possible regarding the scenario they face. Of special significance is the internal layout of the buildings they are to operate in. There is an urgent need for a database of the internal layouts of high profile buildings that are likely to be targeted, to be built and made available to elite counter-terror units. Any organisation named as a potential target must be required to provide layouts of all its facilities to this database immediately.

Si vis pacem, para bellum

The events of November 26th point to a singular lack of preparedness on the part of the state. These are systemic issues and need systemic solutions. The steps announced by the state and central governments, while commendable, are insufficient. Seductively simple solutions like a central investigations agency will not help in dealing with the next Black Swan to occur in India. Tougher anti-terror laws, while serving as a deterrent, will not help reduce the number of civilian, police, paramilitary and armed forces casualties in the future. That can only be achieved by proactively improving the ability to anticipate events, manage risks and respond in a co-ordinated manner horizontally and vertically across the government machinery.

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ECONOMIC POLICY

The empire strikes back

Thirteen reasons to feel gloomy about economic reforms in 2009

BIBEK DEBROY

JOHN MAYNARD Keynes is back in fashion with a vengeance. Economists have talked about global macro-economic imbalances ad nauseam, with high consumption and current account deficits in US primarily in mind, and the reverse elsewhere in the world, such as Asia. The dollar's role as a *de facto* international currency, flexible exchange rates, capital account convertibility and the International Monetary Fund's role are thrown in. If these issues are revisited, and a World Financial Organisation contemplated, then that's a tribute to Keynes and his role in shaping the initial Bretton Woods regime.

However, it isn't the case that these imbalances caused the present global financial crisis. That trigger was provided by domestic regulatory failure in the United States. Had it not been for that, we would have continued to debate global imbalances for another twenty years and eventually, self-equilibrating mechanisms for correction would have emerged. Note that savings rates have increased (before the crisis) in the United States and declined in East Asia. Keynes is back in fashion for a different reason too. Jokes about economists never agreeing are clichéd. In a way, these originate with Keynes, more accurately with what Winston Churchill said about Keynes. Churchill said that two economists always gave him two opinions. Unless one of them happened to be Keynes, in which case, he got three opinions.

Ordinary non-economist mortals have every reason to complain about confusion. No one disputes need for prudent regulation, though the content of regulation needs debate. Perhaps investment banking needs to be separated from other banking operations. Perhaps there should be caps on leverage ratios. But can one regulate ratings by credit rating agencies? However, what is happening in developed economies goes much beyond regulation and its content and overturns the wisdom of the last thirty years. After the East Asian financial crisis, it was fine for banks in Indonesia and South Korea to be closed down and for interest rates to be jacked up to exorbitant levels. But that medicine can't be applied to developed

economies—banks and financial institutions must be nationalised and public money used to bail out private vices. These kinds of sentiments are associated with the name of John Maynard Keynes, who wrote during a period of depression and unemployed resources. Indeed, there are situations where monetary policy does not work. And Keynes therefore advocated use of fiscal policy

Developed countries can do what they want. As long as they do not want bail-out resources from India. Thankfully, India isn't China, Saudi Arabia or Japan and is not in a position to offer money. But in this reverse swing of the pendulum, the empire has struck back with a vengeance in India. The empire of state intervention never withered away in India. It only dithered for a while. Consider the following.

First, the Doha round of multilateral trade negotiations aren't going to resume in a hurry, not before 2011 and will not have flesh and blood on the skeleton until the EU's Common Agricultural Policy (CAP) is reformed beyond 2013. So that external trigger for trade liberalisation is postponed.

Second, the increase in food prices in recent years made both net exporters and importers chary of agricultural liberalisation. For the former, food inflation means catering to domestic markets. For the latter, elimination of subsidies in developed countries means higher global prices.

Third, with recession in developed countries, the attention switches to domestic economic policies, not trade liberalisation, multilateral or regional.

Fourth, the incoming US president has reservations about free trade. Fifth, within India, the UPA government and its ministers have exhibited mindsets of controlling prices by government fiat, instead of leaving these to market forces—steel, cement, pharmaceuticals and interest rates.

Sixth, given National Common Minimum Programme (NCMP) constraints, no one expected the UPA to open up pensions or insurance, or privatise PSUs, or introduce labour market reforms. But it was expected to make public expenditure more accountable, linking outlays with outcomes. As a

budget promise, the outlay-outcome exercise has now been discarded. Though useful, the Right to Information (RTI) Act has had its teeth knocked out. The government has expanded the so-called flagship programmes, though they are of doubtful efficiency and leak like the Titanic. Add to that farmers' debt relief, national rural employment guarantee and the Sixth Central Pay Commission. Add also off-budget items like food and fertiliser bonds. These show up in bank figures on lending and therefore, figures on credit growth are misleading.

Seventh, deficit figures (as shares of GDP) are alarming. They are also misleading. There is a technical definition of the fiscal deficit, encapsulated in the Fiscal Responsibility and Budget Management (FRBM) Act. Compared to the original draft legislation, that statute also lost some of its teeth. The yearly numerical targets were junked

incoming government in 2009 will find FRBM terminal targets impossible to adhere to. There will be demands for relaxation and given the present climate, Parliament will agree. Once the Centre does that, it loses all moral arguments against States not implementing their own FRBM legislations.

Ninth, off-budget items don't figure in fiscal deficit numbers. Once those are factored in, the Centre's true deficit is now 8.5 percent of GDP and with State contributions thrown in, the overall deficit is 11 percent of GDP, back to pre-1991 levels.

Tenth, why did India move to a higher growth trajectory in 2003? The demographic dividend, labour input, export growth, decline in contribution of agriculture in national income, high growth of industry and services and better productivity are valid arguments. But these are incremental and don't explain the sharp break in 2003. That was due to declining cost of capital and high investment rates. Because fiscal consolidation didn't occur, the scope for fiscal expansion is limited. Notwithstanding assorted packages that grab media headlines, these won't be quantitatively significant. If they are significant, they will switch resources from private investment to public consumption and knock the bottom out of what has driven Indian growth since 2003. Private investments will be crowded out because of a high interest rate regime.

Keynes wrote in a period of depression, when resources had no opportunity costs. India is in a downturn, not depression, and resources have opportunity costs. Worse, the preoccupation with fiscal policy diverts attention from monetary policy and the required financial sector reforms that can make monetary policy more effective.

Eleventh, there is a tax reform agenda for both direct and indirect taxes, involving standardisation and harmonisation of rates and removal of exemptions. Reduction of compliance costs is contingent on these, as is the goal of uniform Goods and Service Tax (GST) from 2010. In greater or lesser degree, all governments since 1991 have pursued this agenda and have never formally discarded it. There was little movement along that path with the UPA government. But now, with discretionary treatment part of the fiscal response, that agenda goes for a six.

Twelfth, why did Indian liberalisation (to the extent it happened) meet with so little resistance? Part of the answer is in the young generation, with consumption and income growth from the services sector, one that was historically outside the ambit of unionisation. With growth slowing from 9 per-

Because fiscal consolidation didn't occur, the scope for fiscal expansion is limited. The assorted packages that grab media headlines, won't be quantitatively significant. If they are significant, they will switch resources from private investment to public consumption and knock the bottom out of what has driven Indian growth since 2003.

and one only has a terminal year target for 2009-10. As share of GDP, the terminal year target is 3 percent for the fiscal deficit and 0 percent for the revenue deficit. Admittedly, one shouldn't make a fetish out of the fiscal deficit. It is the composition of government expenditure that matters. That is precisely the reason the revenue deficit is an indicator. Unfortunately, most public expenditure is in the form of consumption expenditure and doesn't add to creation of productive assets. Quite often, it is said that across all governments since 1991, there has been consensus on reducing deficits. That's a pointless assertion, since there hasn't been any consensus on how deficit reduction is to be brought about. For instance, there has been no consensus on reducing public expenditure. Deficits have been reduced by slashing capital expenditure or through higher GDP growth, with the latter blowing up the denominator and also boosting tax revenue.

The high growth years since 2003 weren't used for fiscal consolidation. Eighth, consequently, the

cent to 6 percent and annual new employment growth slowing from 12.5 to 9 million, some of that support base disappears. Witness the Jet Airways episode leading to demands for a nanny state.

Thirteenth, by all accounts, rent-seeking among ministers has increased and this thrives on discretionary abuse. Liberalisation is the antithesis of discretion. Thirteen is an unlucky number. Today, there is gloom and doom in India about the slow-

down. Regardless of the composition of the new government in 2009, and with a slightly different nuance, these are thirteen reasons to feel gloomy about the cause of reforms. The empire has struck back.

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GLOBAL ECONOMY

The biggest solo flight of them all

More reason to proceed with economic liberalisation

VANANTHA NAGESWARAN

ON DECEMBER 16th 2008, the Federal Open Market Committee (FOMC) of the US Federal Reserve decided to cut the overnight federal funds rate to a level between zero and 0.25 percent. That is, the interest rate at which the Federal Reserve wants banks to lend to each other overnight for loans is effectively zero. The Federal Reserve went a step further.

It has realised that once the lower-bound of zero was reached, it had no more control over the overnight interest rate. So it has promised to buy

debt securities of different issuers at longer maturities to bring down interest rates for all kinds of debt. It hinted at a new lending facility for home owners and small businesses in the new year.

Within days of the Federal Reserve announcing these steps, the Bank of Japan reduced its overnight interest rate from 0.3 to 0.1 percent. The first time the Bank of Japan lowered its overnight rate to zero was in 1999. Some time in the last two years, it went up to 0.5 percent but is now back near zero. In the one year since Japan reduced the

overnight interest rate down to zero, the Nikkei stock market index rose more than 40 percent. In fact, much of the increase in the Nikkei index could be attributed to the global stock bubble in 1999 and not the zero interest rate policy of the Bank of Japan. Even if we were to overlook that and attribute the stock market performance to the zero interest rate, the fact remains that the Nikkei stock index is down nearly 60 percent around ten years after the zero interest rate was first implemented in Japan.

Of course, not only have the United States and Japan edged closer to having zero policy interest rates, the United Kingdom has not ruled it out either. All major countries have lowered interest rates to historically low levels. Much of this has been accepted unquestioningly and even applauded. There is very little debate about the benefits and consequences of these measures both in the short-term and in the long-term.

India, should aim to raise savings, investment and attract capital in a world that has turned viciously from excessively footloose capital to excessively trapped capital. Attracting capital entails not only financial liberalisation but also economic liberalisation.

Interest rates are not only about the cost of capital. They are also the reward for saving. When interest rates are lowered to such ultra-low levels, there is very little incentive for saving in nominal terms. Of course, if there is no inflation and even deflation, economists would argue that real returns are positive and that is reward enough for savers. There is theoretical merit in that argument. But, in practice, there are three issues. One is that most of us think in nominal terms rather than in real terms. Hence, people tend to save less or not at all when nominal returns are non-existent. Worse, they tend to borrow more.

When savings are thus not encouraged, it has consequences for long-term growth. Countries may be condemned to years of sub-par growth if savings do not rise. Low interest rates might encourage consumption, but they won't encourage savings, and hence investment needs would go unmet over time. Without investment, there is no sustainable growth. Japan's post zero-interest rate growth experience is an example. In other words, there is a trade-off between growth in the next two years versus growth in the medium to long-term.

Policy actions all over the world have not displayed cognisance of this trade-off.

The second issue is the obsession with growth. Yes, democratically elected governments have an obligation to respond to economic crises. Unemployment has to be addressed. There are no two opinions on that. The questions concern the methods, the efficiency, the effectiveness and the long-term costs and growth sacrifices that accompany any emergency economic relief. This overwhelming desire for growth has led to the name of great British economist John Maynard Keynes being frequently invoked. It is forgotten that Keynes was the product of the Great Depression when industrial output contracted more than a third and one-fourth of the labour force was without a job in the United States. The impact of growth on the environment was a remote concern, and global warming and peak oil were unheard of. Hence, it was natural for him to exhort governments not to wait for the natural curative forces of the economy to work but instead to hasten the recovery.

The context is different today. The world is running out of crude oil and global warming is a growing threat. Countries such as India have used up fiscal policy when times were good instead of conserving it for occasions such as now. There is a potential cost to using fiscal policy in such circumstances: growth today vs growth tomorrow.

The third issue is one of an unbalanced and unhealthy global monetary regime that is currently in place. Many economists from America remain highly sceptical of gold standard. One of the criticisms against it is that the it limited policy freedom as money supply could be loosened only with more gold availability, and that therefore the gold standard magnified the policy errors of the 1930s into the Global Depression. That may or may not be true. But, what is instructive is that, operating without the constraints of gold standard, world's policy-makers have brought the world to the brink of another depression.

The reason is that in the post-gold standard system that evolved after the conference in Bretton Woods in 1945, one country has enjoyed rights to set the world monetary policy and it has abused it at least four times in four decades. That country is the United States of America. It is no surprise, therefore, that American economists are leading critics of the gold standard. Discrediting an alternative is one way of perpetuating the status quo that has been in America's favour since 1945.

The first time was in 1971-73 when President Nixon closed the gold window and effectively ended gold-dollar convertibility at US\$35 per ounce. The second time was in 2001-03 when the

nominal Federal funds rate was brought down to 1 percent. Other countries followed, dictated partly by their own economic circumstances and partly by the anxiety to prevent excessive and rapid appreciation of their currencies. Consequently, the world was awash with easy money for too long.

The third time the Federal Reserve turned the US dollar spigots on was in the fourth quarter of 2007 that lit a fire for speculation in commodities, pushing crude oil price over US\$140 per barrel in 2008 and many developing nations over the edge of the cliff.

None of the previous solo flights of the US Federal Reserve meant good tidings for the world economy. December 2008 is the fourth time and this is the biggest solo flight of them all.

The United States is embarked on a similar path now. It will be depreciating its currency and others will have to submit meekly or resist by depreciating their own currency. It is a race to the bottom. As the global growth pie shrinks, there is thus likely to be an increasing clamour for retaining and expanding one's share of the pie. Thus, beggar-thy-neighbour policies are now more likely the norm than the exception.

As the previous article by Bibek Debroy brilliantly argues, we have the worst of all possible worlds. When governments had to intervene in financial sector, they did not. Worse, they undermined regulation of the financial sector in a way that enhanced systemic risk but not efficiency. That

happened all the way from Washington to New Delhi. Now, when they should be intervening minimally and letting markets find the right level of asset prices, interest rates and exchange rates, they are manipulating all asset prices for short-term considerations.

India, should aim to raise both savings and investment through different ways and attract capital in a world that has turned viciously from excessively footloose capital to excessively trapped capital. Attracting capital entails not only financial liberalisation but also economic liberalisation. What better way to show that we understand the difference than to stand by and take credit for what the Reserve Bank of India did in the last few years and, at the same time, unshackling the economy and showing intellectual leadership in a world that is wallowing in groupthink?

It would have been all right if capitalists had killed financial capitalism. In the process and in collusion with both intellectuals and governments, they have nearly killed capitalism itself. Intellectual bankruptcy has clearly been the catalyst for and, in turn, been the consequence of financial bankruptcy. The road ahead appears both dangerous and dark now.

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AGRICULTURE

Underlying agrarian distress

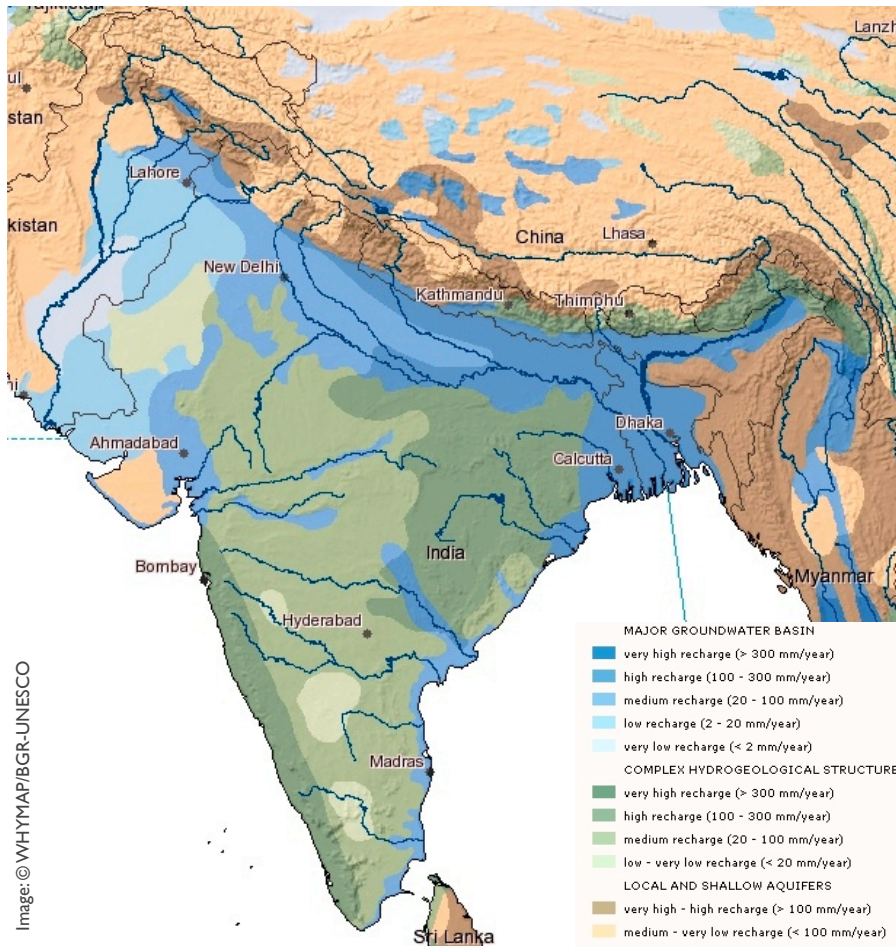
Hydrogeology offers insights for irrigation policy

SUVRAT KHER

WHAT IS the relationship between geology and economic development? The chances are that you will point to the oil and gas and mining industry. You will be right but not entirely. The influence of geology on our lives is much more pervasive than that. A groundwater map (see next page) prepared recently by the World-wide Hydrological Mapping and Assessment Programme drives home this point. The map divides aquifers underlying India into three main categories. The Himalayas have according to this study shallow local aquifers, the Indo-Gangetic plains high yielding homogenous

aquifers and the rest of peninsular India aquifers within complex geological structures. Combined with recharge potential the map gives on a broad scale the likely patterns of aquifer yield across the country.

Looking at Maharashtra in the map, you will notice the areas classified as 'complex hydrogeological structure' with 'medium to low recharge potential'. Over the last 6-8 years the districts of Amravati, Aurangabad, Nagpur, Nashik and Pune has seen the death of more than 2000 farmers through suicide. The immediate explanation for



What lies beneath—groundwater map of India

most of these cases is indebtedness. Farmers borrow money to meet high farming input costs or for other personal reasons and fall into a debt trap if crops fail or give a low yield. Those areas marked as 'complex hydrogeological structure' and with 'medium to low recharge potential' coincide with the areas in which the vast majority of the 2000 farmer suicides occurred.

The Maharashtra government compiled the results of several studies of farmer suicides and identified conditions that made farmers in these regions particularly vulnerable. These were:

- Disruption in regular rainfall cycle since 2001. Long dry spells, deficient monsoon.
- Single crop a year, and Cotton the dominant crop. About 70 percent of farmers who committed suicide had planted cotton.
- Around 93 percent of land is rain-fed and 98 percent of the farmers who committed suicide had no irrigation.
- Yield limited by rain, but regular rise in cost of input lowered margin of profit.
- Volatility in market price further lowered return.
- Commitment to money lender did not leave anything with the farmer.

This agricultural region sits on top of the Deccan basalts. Basalt is a volcanic rock. The rock mass is made up of interlocking crystals; it has minimal permeability. However, often the rock is fractured and these fractures or joints become the storage and transmission pathways for water. These fracture systems are not uniformly distributed throughout the rock mass. They are restricted to linear or irregularly shaped zones and die out laterally and vertically making the contained aquifers heterogeneous.

An unfortunate consequence of this extremely variable and compartmentalised basalt aquifer system is that a farmer with a small landholding of a hectare or so—and there are plenty of them in this region—may just have the bad luck of farming on top of an unyielding basalt. He then has to rely entirely on the rains or get into a groundwater sharing agreement with a neighbouring farmer who might have a yielding aquifer under his farm. But during times of water stress there is too little water to go around resulting in crop failure or low yields.

A recent study of groundwater use and agriculture in Vidarbha, a region badly hit by farmer suicides, highlights this influence of geology on agrarian economies. The research conducted through the International Water Management Institute-Tata Water Policy Programme found groundwater exploitation a strong determinant of crop yields and incomes. Farmers who used groundwater as a supplement to surface water have higher yields from their fields.

But the study also found that overall groundwater is under-exploited in this region. Poor farmers cannot afford to dig into the hard basalt. And

Finding water in basalts can be tough without proper geological guidance. So poor farmers don't exploit groundwater enough and therefore remain poor because inadequate and infrequent surface water sources usually make for poorer crop yields.

past experience has taught them that the variable water yielding properties of the rock makes digging a risky proposition. Finding water in basalts can be tough without proper geological guidance. So poor farmers don't exploit groundwater enough and therefore remain poor because inadequate and infrequent surface water sources usually make for poorer crop yields.

Another problem, and one that is seen increasingly all over India, is that not enough attention has been paid to managing the available groundwater resource. Farmers use dug wells as a primary water extraction method but do not widely use the dug well to replenish the aquifer during times of good rain. This has led to aquifer over-draft and a steady diminishing over the years of the groundwater resource. Not all cases of farmer suicide can be linked to water problems; crops can get wiped out by pests, yields could have been low due to soil degradation, some instances where Bt Cotton seeds failed, and then there are probably cases where despite decent yields farmers simply made irresponsible financial commitments. But the link of low yields to ready availability of water is real. Poor management of groundwater resources has exerted a powerful influence on the lives and livelihoods of Maharashtra farmers.

In a recent issue of *Pragati*, Tushaar Shah, a groundwater expert with the International Water Management Institute made a strong case for the systematic and scientifically managed exploitation of groundwater as a solution to India's present and continuing agrarian water problems ("Needed: A new monsoon strategy", *Pragati*, No 16, July 2008). The government of India however doesn't seem to agree. The Prime Minister of India's special relief package for Maharashtra farmers wants to attack the problem on a broad front which includes tinkering with the economics of cotton farming, encouraging a diverse array of crops and reducing dependence on pesticides and fertilisers. All these are valid points. But water underlies any successful agricultural strategy.

In terms of water, the relief package lists irrigation development as the only long term solution to

the water problems faced by farmers. Irrigation development in the language of the government of India means canal irrigation (read mega infrastructure projects) and not local groundwater irrigation. It doles almost ten times more money to irrigation development than to watershed development. This, despite the revealing statistic that even though tens of thousands of crores of rupees have been spent on canals, they irrigate just about 15 percent of arable areas over the landmass of India and marginal farmers and farmers with small landholding benefit most not from canal networks but through groundwater irrigation.

Global warming and changing monsoon patterns will be the next challenge to agriculture in the decades to come. Climate models for the Indian subcontinent suggest that monsoons are likely to become stronger although some areas might experience erratic patterns. In May 2008, the US government released a summary of federal and independent research pointing out region specific impacts of human induced global warming. This was followed by another report on extreme weather and how that may impact different regions in the US. We too badly need a thorough region-specific scientific assessment of how global warming will affect different regions in India, and use this to plan and execute a massive and focused effort of aquifer exploitation and replenishment using existing and new groundwater recharge structures. This is the cheapest and environmentally least destructive solution to improving water security and alleviating farmer poverty.

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EDUCATION

Discarding ideological blinkers

India's schools need an intellectual liberalisation

RENU POKHARNA

EDUCATION IS a liberating process—oft repeated, but seldom true unless education is defined clearly. In India the formal education that is provided by schools and colleges actually imprisons the young mind. It makes the youth closed to ideas of freedom and of a liberal society.

Whatever openness or support there is today for liberal ideas has come more from the process of economic liberalisation, which made people realise the benefits of open markets, and increased social freedoms, than from education.

The curriculum in our educational institutions is strictly socialism-oriented. New Delhi's Jawaharlal Nehru University (JNU), for example, is considered a top university in the country, and is also a hotbed of student activism. But one visit to the canteen is revealing of the kind of activism that is espoused by the students. It presents a striking paradox—bold colourful posters pasted on its walls with slogans like 'Down with Capitalism' and 'March against Globalisation' but many a global brand, from Coca-Cola to Cadbury's, is available for sale from its counters. JNU has a history of Marxist student parties winning elections every year on the very same slogans. A look at its textbooks yields explanations. Like many other Indian universities that offer the subject, JNU's social work course promotes the state as the sole saviour of the poor in the country.

The curriculum of the 'development studies' and 'social work' programmes that are offered in the universities across India contains just one or two courses on basic economics. Surely develop-



Still lurking in the canteen

ment and poverty eradication are more than about short term action plans of helping poor by charity and other government programmes? The greatest impact on poverty from Sweden to Vietnam has been due to easing government controls on markets within the country and free trade with other countries. Unless students understand this economic aspect of policy-making, no amount of 'development studies' courses can help. Unfortunately, the psyche of students is being shaped differently, which is why when events like World Social Forum or Asian Social Forum are held in India, they receive a large numbers of their participants from among students of these courses

The impact of a flawed education though is just not restricted to peaceful marches and campus elections for communism; it also manifests itself in violent rebellions, most famously in the Naxalite movement. The movement, spearheaded by the Communist Party of India (Marxist) in the 1960s started off as a peasants' uprising and then following the ideals of Che Guevara and Mao Zedong, decided to launch guerrilla warfare against the state itself.

Today Naxalism directly threatens the security of as many as 160 out of India's 604 districts. Initially, it was the romanticism of rebellion that made many educated youngsters become a part of it. As H. Balakrishnan remarks, "Presidency College was the hub of student activism, the *jhola* being a trademark. Beards *a la* Che Guevara had arrived." India cannot afford to help indoctrinate its young minds towards sympathising with, and providing recruiting grounds for, what Prime Minister Manmohan Singh has called the "gravest threat to India's internal security."

Consider the following statement: "(Socialism) emerged as a reaction to the rise and development of capitalism. *Laissez faire* doctrine led to great difficulties in society.....But at the end of the nineteenth century, the fallacies of the doctrine became evident."

This is an excerpt from a Class XII textbook of Political Science prescribed by the National Council of Education Research and Training (NCERT) that designs the syllabus that is set as a benchmark for central board schools across India. The book has chapters on both Liberalism and Socialism under the heading of 'Major Political Theories', but it glorifies socialism with statements like "It protests against the harsh materialism and individualism of classical liberals. A capitalist society produces ugly conditions."

On the other hand, the chapter on Liberalism gives a very misconstrued idea of what liberal means. For example, it says that liberals widely believe that "free people are not equal, and equal people are not free". But it is given as "They did not believe in economic equality. Certain sections indeed believed that economic inequality was not only inevitable, but positively good for all concerned." Nowhere is 'rule of law' talked about despite it being a pillar of liberalism. Further, the textbook talks about Liberalism as if it were a defunct ideology, and doesn't connect it to the prosperity and growth enjoyed by economies around the world, first in the West and now in China and India. To complete the demonisation, the chapter concludes that "the concept of market swallows up the concept of justice and equality."

Ironically, the chapter on Socialism concludes with a mention of the opening of economies in the 1990s and laments at the loss of socialistic ideas. A student, who is influenced by all this at an age where opinions strengthen easily, would obviously be perverse to the ideas of a free market economy and markets providing public goods.

The issue here is not only of textbooks, it is also of the extent to which the teaching faculty influences the students. At the Tata Institute of Social

Sciences (TISS), it is ironic that an educational institution funded by one of India's biggest corporate companies should actually be anti-capitalist. Recently, in response to corporate interest in rural health care, a very senior member of its faculty argued in a newspaper that it was not a plausible idea "as it depends on the business house's charity quotient rather than on a sustainable module."

Thousands of students in India pass out from colleges dominated by teachers who still believe in a Red Revolution. The teaching faculty has a right to their opinions of course, but when an institution is filled with the same kind of people espousing the same kind of ideology, convincing the students about liberal ideas after they have been so indoctrinated becomes a difficult task.

Post-independence India saw the adoption of a mixed economic planning which leaned more to-

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wards socialism due to Nehru's admiration for the Soviet Union. That initial fascination explains why the education system emphasised the benefits of a socialised economy. Times have changed and India's democratic and economic development requires its youth to a better understanding of Liberalism.

At the very least, it cannot afford to put ideological blinkers at a time when it stands at the verge of exploiting the demographic dividend. One positive trend has been the emergence of private schools and colleges many of them experimenting with the syllabus. Yet a majority still adhere to the Central Board of Secondary Education (CBSE) or the local State Boards where the textbooks and the ideas in them have not been updated over time. It is abundantly clear that unshackling the education system by introducing competition and empowering the students is the way forward. Liberating minds by transforming the curriculum must be part of India's education reform project.

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REVIEW

National process re-engineering*Why reforms with a human face are possible and within reach*

HARSH GUPTA

NANDAN NILEKANI, in his well-written and meticulously researched book *Imagining India—Ideas for a new century* has taken on the unglamorous yet necessary job of publicly endorsing economic reforms and laying out his own vision for the necessary next round. On the basis of what actually delivers truly inclusive development rather than on partisanship or ideology, he argues against socialism. It is that sense of pragmatic idealism, combined with a humble curiosity that really makes this book so engaging.

Review

Imagining India—Ideas for a new centuryby Nandan Nilekani
Allen Lane/Penguin, 531 pages, 2008

Nilekani says that we must understand "the fierce urgency of now", in order not to waste our demographic dividend by staying on this statist, quasi-socialist path. His vision of overcoming India's "vertical divides" of caste and religion through economic growth is highly inspiring.

Mr Nilekani presents his argument through three examples: instead of having make-work schemes we should rationalise our labour laws because that will create organised sector jobs for the poor. Instead of resorting to reservations and blind educational spending we should increase overall access to both primary and higher education by giving private players a level playing field with the government. And instead of agricultural subsidies which help only large farmers and middlemen we should liberalise our agricultural sector too.

The importance of these reforms is very well known to our technocrats and "professor-politicians" but as they remain relatively unknown, our political rhetoric remains socialist-

populist. In spite of this, Mr Nilekani remains optimistic that change is coming. The biggest factor here is the bulging demographics of Indian youth who are more globally-connected, ambitious and have no dogmatic ideological framework; they

allow themselves to be responsive to rationally-argued and clearly-presented policy messages.

Obviously having evangelists with the street cred of Mr Nilekani does not hurt either. So when he makes the point that using unique smart cards and linking up our disparate vertical databases can move us away from the inefficient subsidies towards a system of direct benefits, you know that this can be executed coming as it is from a former CEO of Infosys; and that these are not just the ideas of nerdy policy wonks and esoteric academics.

The section on urbanisation, besides showing the successful use of incentives by the central government to abolish urban land ceilings and other socialist urban planning disasters, is highly inspiring as Mr Nilekani pens the rise of yuppie idealists. Professionals from Delhi to Bangalore have started effective NGOs on issues like e-governance, education for slum children and water solutions. Mr Nilekani himself (along with his wife) has donated both money and ideas to such projects, making it safe to tag him as a "venture philanthropist".

But *Imagining India* is not all policy and is in fact peppered with many perspicacious observations about our society, politics and history. A section which beautifully combines all three is about the English language which Mr Nilekani calls "The phoenix tongue". Tracing the language's evolution in India from a colonial administrative language to a neutral language in the post-independence linguistic battles to finally the language of upward mobility in a knowledge economy, he says that we have finally accepted the language and that no chauvinistic politician today can deprive rural and poor children of an English education without fac-

ing a "groundswell" of protest.

The structuring of the book into four parts—ideas that we have accepted and implemented, ideas accepted but not implemented, ideas presently under debate, and ideas for future debates—precludes an episodic feel to the chapters. And while the first three parts, in some form or shape, are standard fare for the recent crop of non-fiction on India—it is in the last part that the book really stands out by daring to be innovative as well as controversial.

Indeed Mr Nilekani accurately presages and pre-empt future leftist attacks by advocating for a "social insurance plan, built around defined contributions (and not defined benefits)...would touch a demographic sweet spot...leveraging the growing value of India's capital markets in the next few decades". He explains that this policy would not only be economically inclusive, but would bolster government revenues from the capital markets instead of depleting it with pay-as-you-go Ponzi welfare schemes.

But the book—clearly being a *tour d'horizon*—can feel a little dry and encyclopaedic at times because historical contextualisation and copious quotations of experts is included in every section. At the same time, the author's internal thought process and struggles—why he rejected and accepted certain policy alternatives—is not well documented throughout. So the author's debate with himself should not have been edited in favour of a this-or-that position pitch, ignoring a spectrum of policy options on some issues.

For example, in the section over what India's policy response to global climate change should be, carbon taxes and emission caps for India are

directly endorsed. But the question remains: even given the scientific consensus on anthropogenic global warming, what is the opportunity cost of mitigating global warming? In other words, is the current cost to combat global warming less than the net present value of future costs if the problem is not addressed on a war footing?

Furthermore, is it in India's national interest from a strategic point of view to commit to ceilings and green taxes now? These are tough issues but the economic future of millions is at stake. Maybe sticking to carbon credits while further encouraging technology transfer globally and better environmental practices locally is our best option.

On the whole though, Mr Nilekani's vision of overcoming India's "vertical divides" of caste and religion through economic growth and reforms is highly inspiring and relevant. Quoting Martin Luther King Jr, he says that we must understand "the fierce urgency of now", lest our demographic dividend goes waste by staying on this statist, quasi-socialist path. This book needs to be read carefully by all thinking and compassionate Indians. They might even convince public-spirited entrepreneurs like the author that they are in fact not "unelectable." Because even if positive change in India is inevitable, competent citizens need to usher it in.

Harsh Gupta is a resident commentator on *The Indian National Interest* and blogs at *Swaraj* (swaraj.nationalinterest.in).

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